

## Message Text

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73

ACTION XMB-07

INFO OCT-01 ARA-16 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 AGR-20 RSR-01 /111 W

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R 272220Z JUL 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 3402

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E.O. 11652 N/A

TAGS: BEXP; EAGR; ES

SUBJECT: SUGAR REFINERY PRELIMINARY COMMITMENT REQUEST

REF: STATE 146853

1. THE EMBASSY DISCUSSED THE PROPOSED AND SUBJECT SUGAR REFINERY, "CENTRAL ASUCARERA DEL VALLE DE JIBOA", WITH MR. FELIX BLANCHARD (F.C. SCHAFER & ASSOCIATES INC. OF BATON ROUGE) WHO WON THE INSAFI CONTRACT TO DEVELOP THE REFINERY'S BID SOLICITATIONS. THE PLANT'S INITIAL DAILY CAPACITIES WILL BE 3,000 MT FOR GRINDING AND 125 MT FOR REFINING; THE SECOND PHASE WILL TAKE IT TO 5500 MT AND 250MT RESPECTIVELY. THE BIDS WILL CALL FOR OPERATION START-UP BY NOV 1975. ALTHOUGH INSAFI STATES PUBLICLY THAT CONSTRUCTION IS TO START IN SEPT 1973, THE SCHAFER CONTRACT DOES NOT REQUIRE SOLICITATION READINESS UNTIL MID-NOV. AND BLANCHARD SUGGESTED OFF-THE-RECORD THAT CONSTRUCTION IN MAY 1974 IS A MORE REALISTIC DATE. VERY PRELIMINARY COST ESTIMATES PLACE THE FACILITY WITH BOTH PHASES COMPLETED AT BETWEEN \$18 AND 20 MILLION. THE TURN-KEY BID WILL BE OPEN TO ALL, BUT INSAFI'S FINANCING IS NOT YET IN HAND AND ITS SOURCE MAY LIMIT THE FIELD OF BIDDERS. BLANCHARD SAID HIS FIRM IS WORKING EXIMBANK FINANCING AND HOPES EQUIPMENT PURCHASES WILL BE FROM THE US.

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2. THIS PROJECT WOULD BE INSAFI'S LARGEST AND THE FIRST SIGNIFICANT

ENDEAVOR IN WHICH IT HOLDS MAJORITY INTEREST. INITIALLY THE MILL/ REFINERY'S PLANS CALLED FOR 20 PERCENT PARTICIPATION BY SALVADORAN SUGAR MILLERS, 20 PERCENT BY LARGE SUGAR GROWERS, AND 60 PERCENT BY INSAFI WHICH WOULD DELUTE ITS SHARE AS SMALL GROWER-USERS WERE ABLE TO PURCHASE SHARES. NOW INSAFI WILL HAVE 80 PERCENT AND SOME 3,000 SMALL GROWERS IN THE ARE WILL HOLD THE REMAINDER. HOWEVER, COMMENDABLE THE IDEA, THIS ELIMINATES LOCAL TECHNICAL AND MANAGERIAL TALENT WHICH WOULD HAVE BEEN INSTITUTIONALLY INCLUDED UNDER THE FIRST PLAN. BLANCHARD SHARED THE EMBASSY RESERVATIONS CONCERNING THE TECHNICAL COMPETENCE OF INSAFI'S STAFF TO MANAGE SUCH AN ENTERPRISE BUT WE BOTH AGREE THAT THE NEEDED TALENT COULD BE OBTAINED IN THE COUNTRY.

3. INSAFI'S EXTERNAL BORROWINGS HAVE BEEN UNDER ITAQI GUARANTEE,

THAT OF THE CENTRAL RESERVE BANK AND, THIRDLY, BY THE GOES. INASFI'S PAYMENTS RECORD IS IMPECABLE AND IT HAS NOT SOUGHT EXTENSIONS OF REPAYMENT SCHEDULES.

4. THE EMBASSY SUGGESTS, GIVEN THE NATURE AND MAGNITUDE OF THIS LOAN, THAT THE BORROWER OBTAIN A CENTRAL RESERVE BANK GUARANTEE; A GOES GUARANTEE MUST HAVE LEGISLATIVE ASSEMBLY APPROVAL. THE EMBASSY SEES NO OTHER IMPEDIMENTS TO EXIMBANK'S CONSIDERATION OF THE WALLACE INDUSTRIAL CONSTRUCTORS APPLICATION.  
MOSKOWITZ

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